Goding, Marshall Rood

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Practical Currency Revision.

A

PLAN OF REVISION

OF THE

UNITED STATES MONETARY SYSTEM,

BY

MARSHALL R. GODING,

CASHIER CASCO NATIONAL BANK,

PORTLAND, MAINE.

JANUARY, 1896.

William M. Marks,
Printer,
Portland, Me.

Currency Revision.

With the possible exception of the tariff, no question of public policy has attracted more general attention during the past two or three years than that of the Currency. It seems to be conceded by all that a change in our monetary system is desirable and necessary, but the plans thus far advanced have contemplated such radical changes that they have been looked upon as of doubtful utility.

The imperfections in our currency system that cause complaint and call for remedy are many. They consist, principally, of the inelasticity of our paper money and the difficulty the Government has experienced with its gold reserve and its so-called established policy regarding the parity of the two money metals, gold and silver.

Without discussing the causes that have brought so prominently into notice the lack of elasticity in our note issues and the difficulty of maintaining the

gold reserve and the parity, the proposition of revision here considered deals with such changes in existing laws as would naturally be expected to result in removing or improving the present unsatisfactory and disturbed condition of financial affairs.

The object of this plan has been to attain practical benefits through as few modifications as possible of laws now in force. There is here no attempt to formulate a theoretically perfect monetary system regardless of prevailing conditions.

In order to fully understand the nature of the proposed changes in their relation to those parts of our present system which must be retained, the plan is here explained as to its effect on all kinds of United States currency, including our existing money bases and the new features intended to improve the whole. Through these changes, it is expected that our future requirements can be fulfilled and our difficulties of to-day overcome.

Unlimited coinage of gold should be continued under present laws. Gold at the present time is the most valuable form of money intrinsically, because of its almost universal use as money throughout the civilized world.

In countries where the gold standard of money is exclusively in use, like England and Germany, gold bullion or gold coins of any nation are readily converted into the legal-tender money of those countries through their mints at comparatively no expense. Where the gold and silver, or exclusively silver basis of money exists, the market value and demand for gold coins and bullion is such that they are the equivalents of money, and easily exchanged for it advantageously.

Thus gold becomes, by a sort of natural selection and by reason of active market value everywhere, the most valuable money metal. The fitness of this selection is practically apparent when the matter of convenience in handling large values in small bulks is considered. Taking silver and gold coins at the established ratio in this country of sixteen to one, a ton of gold would pay as many debts, or purchase as many commodities, as sixteen tons of silver. And if the market value basis of the two metals be taken, it would make the proportionate weights and bulks about one to thirty-two.

In the settlement of international trade balances by the transportation of metallic money from one

country to another, the question of which kind has the least weight and bulk to a given value is all important as affecting the cost of the transaction. Viewed from the standpoints of stability of value and convenience in handling, gold must be conceded to be a better money metal than silver.

That the parity of all forms of United States money may be maintained beyond question, there should be established in the United States Treasury a Redemption Fund which should contain at all times not less than 25% in gold and 15% in silver (both at their market value) of the par value of all kinds of outstanding money in the United States of less intrinsic value than United States gold money.

The amount of gold that would be required to establish such a Redemption Fund would be about $364,000,000. This estimate is based on the present total of outstanding United States money of less intrinsic value than United States gold money, and includes the amount of gold in such Redemption Fund, for which circulating notes should be issued as hereafter explained. The correctness of these figures will be seen by examining the following state-

ment of the total currency except gold which has a legal existence as money in this country:—

United States Notes,	$346,681,016.
United States Treasury Notes of 1890, including silver dollars with which some of them have been redeemed,	155,931,002.
Silver Dollars and Silver Certificates, Act of 1878,	378,166,793.
National Bank Notes redeemable by Government,	32,690,396.
Total of Monetary responsibility of the Government,	$913,469,207.
National Bank Notes redeemable by the Banks,	178,815,801.
Total Money (exclusive of gold) outstanding,	$1,092,285,008.
Redemption Fund in gold (25% of above money and this Redemption Fund),	364,095,003.
	$1,456,380,011.

According to the abstract of reports made to the Comptroller of the Currency showing the condition of the national banks in the United States Sept. 28th, 1895, they held gold and gold certificates amounting

to about $163,000,000. This gold should be deposited in the Redemption Fund, and, as an inducement to the banks to thus place their gold, legal tender notes should be offered in exchange for it and a law passed requiring that the present lawful money reserves held by them in their own vaults shall consist of United States notes only.

Under these conditions, they would willingly part with their gold and accept in its place the more convenient form of money represented by notes redeemable on demand in gold whenever it was wanted for any special purpose. The motive of self-interest would be all-powerful in bringing about this result, because notes would then count as reserve, and gold would not. If a bank kept any gold on hand, it would be at the cost of the interest which would be accruing if it were in use. A very small item of cost of that description would be sufficient to cause the banks to cease hoarding gold.

The only practical use for gold in this country under normal conditions is in the payment of foreign debts and in the small demand for manufacture into works of art and usefulness. There can be no doubt that the people would seriously object to its actual

use as currency, if it were ever so plentiful. They would demand a paper representative of it for circulating purposes in the same way that they discriminate against silver dollars in favor of their paper representatives for every-day use.

With no more bond sales in this country for which exclusively gold payments were required, the present incentive to hoard gold would be gone. No further possible profit from that source could be expected. It is reasonably sure that the banks would furnish this $163,000,000 towards the formation of the Redemption Fund, and that the present Gold Reserve will be shortly restored to the $100,000,000 mark. There would remain to be raised under such circumstances only about $100,000,000 more in gold to establish the gold part of the Redemption Fund at $364,000,000, or 25% of outstanding currency exclusive of gold money.

When confidence is restored, as it would be if an adequate reserve fund was to be immediately established, there will be considerable gold find its way into circulation from private hoardings. If this further source of gold for the Redemption Fund should not supply the balance needed, it would only be

necessary to borrow $100,000,000 in gold abroad to finish the founding of a Redemption Fund that would command the confidence of the financial world.

The silver part of the Redemption Fund could be easily provided. It could be readily supplied by depositing in that fund the Government's holdings of silver dollars and silver bullion, thus adding a market value of security to outstanding United States currency of over $250,000,000 more, or a total exceeding 40% of the liability. United States money, the redemption of which was thus provided for, would equal in goodness that of England, or any other country.

After establishing this Redemption Fund, the Secretary of the Treasury should be authorized to redeem in, or exchange for, United States gold or silver coins, any kind of currency lawfully issued in the United States, at the option of the holder thereof when presented at the Treasury or any Sub-Treasury in sums of not less than $50. At the present time, the discretionary power legally rests in the Secretary as to the kind of money that shall be used in the redemption of United States' obligations. By changing the law so that the choice is to be exercised by the holder

of those obligations, confidence would be complete, and continue so as long as the Redemption Fund was maintained in excess of the fixed minimum above mentioned.

No law now in force requires the Secretary to exchange gold dollars for silver dollars, unless the declaration that it is the established policy of the United States to maintain the parity of the two metals may be considered to be mandatory in that respect. It can in any event, be hardly considered as conclusive and satisfactory where absolute certainty is most important. An explicit declaration by resolution or law on this point is necessary. The actual practice of the Treasury is not to exchange or redeem silver dollars with gold.

The Secretary of the Treasury should be authorized to borrow on United States bonds, whatever amount of gold might be required to maintain the gold part of the Redemption Fund at a minimum limit of 25% of outstanding money other than gold money. It should be required that the bonds sold for this purpose should be sold in some foreign country, in order that additional gold in the United States should result from such sales.

As a precaution, guarding against the possibility of the bonds sold abroad being re-sold immediately in this country, and the object of the sale (to obtain more gold) thus made of no avail, it would be wise to provide by law that such bonds shall not be used as a basis of circulation by national banks. The use of these bonds might be safely permitted for circulation security when the Redemption Fund contained an excess of 35% in gold of outstanding currency.

The proposed restriction, regarding the use of Redemption Fund bonds at the time of their issue, would prevent them from having a particular value in addition to their investment value. This additional value belongs to all issues of United States bonds that are available to secure circulation. It causes them to command a higher price than could otherwise be obtained. If bonds sold abroad on an investment basis can be sold again in this country at an advance, because of the profit possible through taking out circulation on them, they will undoubtedly find their way back to the United States at once. Payment would then be required in gold, and that furnished from the Government's stock just obtained through the issue of those same bonds. Such transactions would be useless in supplying the Redemption Fund requirements, and that contingency should be guarded against by the method here indicated of disqualifying Redemption Fund bonds for circulation procuring purposes.

The gold received into the Redemption Fund through the sale of bonds can be made useful in reducing the cost of obtaining it, by issuing the mintage value equivalent of such gold in United States notes, and authorizing the Secretary of the Treasury to use them in buying United States interest bearing bonds at the lowest possible price. With the bonds thus purchased, establish a sinking fund to provide for the ultimate payment of Redemption Fund bonds issued. In this manner, the total amount of United States bonds outstanding could be practically kept from increasing; and the cost of maintaining the Redemption Fund would be so reduced as to be easily met from taxes received from banks on circulation issued to them; so that no expense would be entailed on the Government, by reason of its issue and redemption of all the currency in the United States.

The establishment and maintenance of the Redemption Fund having been provided for, the next matter

for consideration would be a possible super-abundance of gold in the Redemption Fund. It has been proved by experience that large accumulations of unemployed money lead to extravagant speculation, with subsequent panic and losses. An excessively large surplus of gold in the Redemption Fund could be reduced to a considerable extent by authorizing the Secretary to use the gold, in excess of 35% of outstanding currency, in the purchase and cancellation of Redemption Fund Bonds.

A great advantage in economy of issue and redemption and in stability of value would be gained, if the various kinds of paper money circulating in the United States were unified by issuing in their place United States legal tender notes redeemable in gold or silver at the option of the holder. It is most desirable, that no discrimination be possible in favor of any particular kind of circulating notes having special qualities. One form of paper money would benefit the community, because no question could then arise whether or not it was as good as some other kind. The fact that it was redeemable on demand by the Government in gold or silver, as desired, would entitle it to the highest credit possible.

Under the proposed system, United States notes redeemed in gold or silver should be cancelled. This would not in any way reduce the amount of United States notes, or greenbacks, so-called, now outstanding; but it would prevent any additional notes being issued that were not founded on an equal value of gold, or on Government bonds, through issues to national banks. The additional issues possible to national banks would not only be based on Government bonds, but, through the operation of the proposed Redemption Fund, they would be further secured by at least 25% of their amount in gold in that Redemption Fund.

In view of these facts, no valid reason appears to exist against issuing United States notes to national banks to the extent of 90% of the market value of Government bonds deposited by them to secure circulation. The Comptroller of the Currency can be the judge of that market value; and, in case of depreciation in prices of Government bonds, he can oblige the banks to reduce their circulation, or sell their bonds, and reduce it with the proceeds.

An exclusive United States note circulation would make it an easy matter for national banks to retire a

part, or all, of the notes issued to them, for the reason that it would simply be necessary to send to the Treasury for cancellation some of the only kind of notes there were in circulation. The United States legal-tender notes issued to national banks, instead of the non-legal-tender bank notes now issued by them, would be very advantageous; as it would furnish the banks, and through them the public, with a form of money that could be used for all purposes.

The distinctive national bank note is quite limited in its usefulness. It cannot be used in the payment of Clearing House balances in the principal cities of the country. To be sure, this restriction in its use is a local regulation; but custom in this respect is as effective as law. The liability of an issuing bank to be called upon for the redemption of their notes at any time limits the notes' usefulness as a basis of credit for loans and discounts to their customers.

The national bank 5% redemption fund on deposit in the United States Treasury would be abolished under the proposed system, it being superseded by the Government Redemption Fund.

The tax on circulation issued to banks should be fixed at a rate that would make the obtaining and

retiring of circulation by them the effective means of keeping the currency outstanding always equal to the demands of trade. It should be a rate that would be low enough to encourage legitimate use, and high enough to make it profitable to the banks to retire it rather than lend money at such an insignificant rate as to lead to rash speculation. If it were made profitable to banks to take out circulation when business could afford to pay 2.1-2% per annum and upwards for money, merchants and others could not complain that money was too expensive to use.

On the other hand, were it made more profitable for banks to retire circulation than to lend money at 2% per annum or less, they could be depended upon to effect a contraction of the currency in accordance with the law of demand and supply as regards the use of money at a fair rate of interest. A tax rate that would satisfy these requirements should be about 2% per annum. Five cents per day per one thousand dollars, which is at a rate of 1.82 1-2% per annum, would be an easily computed tax; and would, undoubtedly, regulate the volume of currency to the needs of commerce.

With the privilege accorded banks of receiving

circulation to within 10% of the market value of bonds deposited; with no 5% redemption fund to maintain or frequent redemptions of their own notes to make; and with the circulation issued to them a legal-tender, they could well afford to pay 1.82 1-2% per annum for such circulation; providing prompt service was rendered by the Comptroller's office in issuing and redeeming that circulation. By means of a plan of this description, the pecuniary interests of the banks would be enlisted to cause a close correspondence between the volume of currency and the demand for it in business.

An emergency provision of law could be enacted to protect the banks and the country from the evils of panics, and obviate the necessity for Clearing House Certificates, which are an inflation of the currency without lawful authority. The Comptroller of the Currency could be authorized to issue at times of great monetary stringency caused by panic United States notes to national banks for the face value of the promissory notes of such banks to a total limit of 50% of the demand deposits owing by the banks issuing the notes. The issue to any national bank, applying for circulation under this provision of law,

should be made subject to the approval of the Secretary of the Treasury and the Comptroller of the Currency, which would be a safeguard against issuing any circulation to a bank not financially strong.

Notes of banks deposited with the Government to secure circulation in this manner should be made a first claim on all the assets of the issuing bank, including the personal liability of shareholders. The intimate knowledge of the Treasury officials as to the financial condition of each national bank would render it easy to prevent any loss to the Government through issuing this special emergency currency.

The banks receiving this circulation should be taxed at the rate of 7.3% per annum on such circulation; also be prohibited from increasing their liabilities in any other manner above their total at the time of first issuing those notes, and until they had all been paid.

The taxes received by the Government from national banks on account of circulation should be used to pay the costs of issuing and redeeming United States notes and Redemption Fund bonds; to pay interest on the Redemption Fund bonds outstanding, and any balance remaining should be covered into the Redemption Fund Sinking Fund. In this way,

the entire cost of maintaining the circulation of the country and the Redemption Fund would be borne by the banks, and no expense whatever be incurred by the Government.

A few figures will illustrate how the taxes received from banks on circulation issued to them would be more than sufficient for the payment of all costs attendant on the issue and redemption of United States currency under this plan. The taxes on about the present outstanding bank circulation, or $200,000,000, at 1.82 1-2% per annum, would yield $3,650,000 yearly. The cost of establishing the Redemption Fund, supposing that $100,000,000 of bonds had to be issued for that purpose, and they sold on a 3% basis, would be $3,000,000 annually; less the income from $100,000,000 United States bonds bought for sinking fund purposes on possibly a 2. 3-4% basis, or $2,750,000, which would leave the net cost of that transaction only $250,000 per year. The difference, between this cost item of $250,000 and the yearly income of $3,650,000, would be an ample sum for other expenses of the system; and for enlargement of the Redemption Fund costs, should the necessity therefor arise.

The existence and usefulness of the national banking system, like other business enterprises, is dependent upon the profit in its transactions to its owners. In late years, the profits have been greatly reduced from former standards, and in fact, have become so small and unsatisfactory in many cases as to threaten the continued existence of the system. Trust companies and State banks have been organized in large numbers, because more favorable charters could be obtained under State than National laws.

The national bank act has been changed very little during the past thirty years, while banking methods have required the exercise of new functions not contemplated by the old law. The privileges granted banks under the national system should be so amended as to meet the requirements of modern times, and should equal those accorded by conservative State governments to State institutions doing the same business.

Among other things, the law should be changed to provide that stockholders of national banks should not be obliged to pay taxes on that part of their capital and surplus invested in United States bonds. They are obliged to do this now, and it is an injustice

that should be remedied. No other class of our people are taxed on money thus invested.

A measure that it would be necessary to enact, in order to revise the United States' monetary system on the above described lines, would read about as follows:—

AN ACT

To Provide for the Establishment and Maintenance of a Redemption Fund for the Redemption of United States Notes, and for other Purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury be and is hereby authorized and directed to establish and maintain a Redemption Fund in the United States Treasury, which shall consist of not less than twenty-five per centum in gold at its coinage value, and fifteen per centum in silver at its market value, of all lawfully issued money outstanding in the United States of less intrinsic, or market value, than United States gold money.

And the Secretary of the Treasury is further authorized to use in the establishment of the Redemption Fund all the gold coins and gold bullion now in the Treasury, not held as a deposit for payment of Gold Certificates in the possession of the public, but including Gold Certificates in the Treasury which belong to the United States; and to issue therefor United States notes, which shall be used by the Secretary in purchasing interest bearing United States bonds to be set apart as a sinking fund for the payment of United States Redemption Fund Bonds as they mature.

To further provide for the establishment of the Redemption Fund, the Secretary is authorized to issue and sell abroad for gold such amount of United States bonds as may be necessary for the purposes of this act. And the bonds hereby authorized shall be payable, with interest quarterly at the rate of three per centum per annum, thirty years from their date of issue in United States gold or silver coins at the option of the holders thereof. The proceeds of sales of these bonds shall be deposited in the Redemption Fund, and an equal value of United States notes issued for sinking fund purposes as hereinbefore provided.

Sec. 2. The Secretary of the Treasury shall

cause to be redeemed in, or exchanged for, United States gold or silver coins, any kind of currency lawfully issued in the United States at the option of the holder of such currency when presented for that purpose at the Treasury or any Sub-Treasury in sums of not less than fifty dollars.

SEC. 3. It shall be the duty of the Secretary of the Treasury, whenever and as often as the Redemption Fund shall consist of less than twenty-five per centum of gold at its coinage value of all outstanding currency lawfully issued in the United States exclusive of gold money, to issue and sell abroad for gold fifty million dollars of United States bonds, payable thirty years after the date thereof, with interest payable quarterly at the rate of three per centum per annum, in United States gold or silver dollars at the option of the holders thereof. The proceeds of such sales of bonds shall be deposited in the Redemption Fund as soon as possible after being received.

SEC. 4. United States bonds issued and sold for Redemption Fund purposes as herein provided shall be designated United States Redemption Fund Bonds,

and such bonds shall not be available to national banks as a pledge to secure circulation.

SEC. 5. The Secretary of the Treasury shall issue an amount of United States notes equal to the United States coinage value of the gold received as proceeds of United States Redemption Fund Bonds sold. The notes thus issued shall be used by the Secretary in buying United States interest bearing bonds, and with such bonds establish a sinking fund to provide for the payment of United States Redemption Fund Bonds when they become due.

SEC. 6. Whenever the gold part of the Redemption Fund shall exceed thirty-five per centum of the total currency lawfully issued and outstanding in the United States exclusive of gold money, the Secretary of the Treasury shall use the excess of said thirty-five per centum in purchasing United States Redemption Fund Bonds. And bonds thus purchased shall be cancelled and destroyed.

SEC. 7. The Secretary of the Treasury is authorized and directed to unify all existing forms of paper money lawfully outstanding in the United States, by converting the same into United States notes redeemable in gold or silver coins of the United States at

the option of the holder thereof. The conversion of said outstanding paper money shall be made as fast as it is presented at the United States Treasury for that purpose, or for redemption. The Secretary is further authorized and directed to issue United States notes in exchange for gold at its coinage value, and for United States silver dollars at their face value. Gold and silver thus obtained shall be deposited in the Redemption Fund. The Secretary shall also issue United States notes, through the Comptroller of the Currency's office, to national banks entitled to circulation under existing laws, instead of the distinctive national bank notes now provided by law.

SEC. 8. United States notes redeemed in gold or silver shall be cancelled and destroyed. United States gold and silver dollars shall be interchangeable, on demand, when presented at the Treasury or any Sub-Treasury in sums of not less than fifty dollars. Gold and silver dollars thus received in exchange shall be deposited in the Redemption Fund.

SEC. 9. The Secretary of the Treasury is authorized and directed to issue, through the Comptroller of the Currency's office, United States notes to national banks to the extent of ninety per centum

of the market value of United States bonds deposited to secure circulation.

SEC. 10. There shall be levied and collected semi-annually by the Treasurer of the United States from all national banks obtaining circulation as provided by law, a tax at the rate of five cents per day per thousand dollars of United States notes delivered to them, during the time said notes remain outstanding on their account.

United States notes issued to national banks may be retired by them at any time by returning same to the Treasury in sums of one thousand dollars or multiples thereof. Notes thus retired shall be cancelled and destroyed. The Secretary of the Treasury shall furnish the Comptroller of the Currency with a sufficient quantity of United States notes ready for immediate delivery to equal the demand for same from national banks entitled to receive them.

SEC. 11. The Secretary of the Treasury is authorized to issue, through the Comptroller of the Currency's office, United States notes to national banks, subject to the approval of the Secretary of the Treasury and Comptroller of the currency, for the face value of the promissory notes of said national

banks, upon the deposit of such promissory notes with the Treasurer of the United States, in sums of one thousand dollars or its multiples. And said promissory notes shall be made payable, on demand, to the order of the Treasurer, with interest payable semi-annually at the rate of seven and three-tenths per centum per annum. The promissory notes of said national banks thus issued shall not exceed in their total amount at any time fifty per centum of deposits, payable on demand, due from the bank issuing said notes. National banks issuing their notes as herein provided are hereby prohibited from increasing their liabilities in any other manner above their amount at time of first issuing said notes, and during the time any of such notes remain unpaid.

The promissory notes of national banks given to the Treasurer to secure United States notes as herein provided shall be a first claim on all the assets of banks issuing them, including the personal liability of stockholders of said banks.

SEC. 12. Taxes received from national banks on circulation issued to them shall be used in paying costs of issuing and redeeming United States notes and United States Redemption Fund Bonds; in paying interest on United States Redemption Fund bonds, and any balance of such taxes remaining after making said payments shall be covered into the sinking fund herein provided for the final payment of United States Redemption Fund bonds.

SEC. 13. All national banks shall keep in United States notes exclusively, that part of their lawful money reserve which existing law now requires shall be kept in their own vaults.

SEC. 14. That part of every national bank's capital stock and surplus, including undivided profits, which is invested in United States bonds, whether the same be pledged to secure circulation or not, shall be exempt from taxation by State, municipal, or other local authority.

SEC. 15. The provision of law requiring national banks to keep five per centum of their outstanding circulation, in lawful money with the United States Treasurer as a redemption fund is hereby repealed.

SEC. 16. All laws or parts of laws in conflict with the above are hereby repealed.

END OF

TITLE